

REMARKS AS PREPARED

**ALASKA GOVERNOR FRANK H. MURKOWSKI
SPEECH BEFORE THE AMERICAN GAS ASSOCIATION**

**ALASKA – PIPELINE TO AMERICAN ENERGY
INDEPEDENCE**

**SAN FRANCISCO, CALIFORNIA
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- This morning I want to identify a crisis that should be of concern to everyone here and to every American.
- I want to challenge each of you to work now to achieve greater energy independence for this great country of ours.
- As most of you know, we currently import almost 60 percent of the oil consumed each year by the United States.
- North America's demand for natural gas is now outstripping supply... demand rose from 22 trillion cubic feet per year in 1990 to in excess of 28 tcf in 2003. Demand is projected to rise to 32 tcf by 2010 ... and to reach 40 tcf by 2025.
- At the same time, natural gas prices that once seemed permanently stuck at \$2/mcf, now consistently exceed \$6/mcf (with current prices over \$12).
- The nation's demand for energy continues to increase at a faster pace than our supply, resulting in rising prices in nearly every sector of the energy market.
- High-energy prices have a negative impact on the

REMARKS AS PREPARED

nation's economy and invariably lead to job losses and add to our deficit balance of payment.

- The recent catastrophic Hurricanes Katrina and Rita that slammed into the Gulf Coast brought into sharp focus our vulnerability as a nation to events which interrupt our supplies of energy, whether those events are caused by natural disasters, wild fluctuations in the international market, or the whims of foreign dictators.
- A few renegade despots who fund unrest and terrorism with dollars from U.S. oil sales are an emerging force in the world's geo-energy politics. Consider Chavez in Venezuela funding Castro. And others in Central and South America funding splinter and opposition groups bent on destabilization.
- Consider Iraq and the war on terrorism: I attended the funeral of an Alaskan soldier killed in an armored troop carrier a few days ago. The vehicle ran over a hidden bomb set off by a cell phone triggered for rapid dial. I asked the senior Army officer seated next to me where the technology came from. His response was "through Syria" with at least a portion of the funding from Saudi extremist groups. We all know who set the price of oil – OPEC, and the U.S. is the largest customer of OPEC. How will the U.S. respond to the growing dependence on the Middle East? Complacency must not replace reality.
- The time is long past when this, the greatest nation in the world, can tolerate an energy imbalance so profound that it leaves us vulnerable to natural disasters, vulnerable to acts of terrorists and hostile foreign governments. Foreign cartels control oil prices yet we

REMARKS AS PREPARED

have antitrust laws prohibiting price fixing in the U.S. We have become complacent to rising prices, as long as we can get gasoline — we pay the price. But all hell will break loose if we can't get it. Some remember the gas lines of the 1970's.

- As Governor of Alaska I am frequently called upon to explain why our 800-mile TransAlaska Pipeline runs every day half full – that is to say at less than 50 percent of its design capacity. This is equivalent to a train operating down 800 miles of track, day in and day out, with half its freight cars empty. The resource is there – it's ANWR, heavy oil—NPRA and offshore—North Slope.

Alaska in Perspective

- How can we suggest that Alaska can substantially produce more energy to meet the growing needs of our nation?
- First, we are a big chunk of American real estate—no offense to Texas, but in size alone, lay Alaska proportionally over a map of the U. S. and we reach out from Florida to California and from Mexico to Canada (try it). We used to have four time zones, and with the International Date Line we are in both today and tomorrow. Our deposits in gas and coal are dispersed from the Arctic to the sub-Arctic to the ice-free areas of Cook Inlet and the Alaska Peninsula. The distance from Prudhoe Bay to the Alaska Peninsula is over 1,000 miles—we have the largest coal deposits at tidewater across from Anchorage known to exist anywhere. This reserve is under study for conversion to synthetic

REMARKS AS PREPARED

petroleum. But we lack access and infrastructure in many of these areas, which are largely unexplored.

- If the resources are there, why have they not been developed? The answer is simply the costs have been prohibitive. But things are not as they were. The economics have changed and the price and markets are now in line.
- Every responsible study that has looked into the matter has projected that there are tens of billions of additional barrels of oil still to be produced from Alaska's North Slope – from Alaska's federal petroleum reserves – from Cook Inlet – and from the Alaska Peninsula.
- Throughout the United States, as a result of wrong-headed governmental policy, influenced by misguided environmental extremism our nation is being prevented from realizing its full energy potential because of blocked access to federal lands.
- I am pleased to announce that the North American Coastal Alliance, a work group of the IOGCC funded by the DOE, will soon be releasing a report that characterizes the untapped potential of oil and gas resources that are off-limits to exploration and development along the coastline of Canada and the United States.
- As immediate past chair of Interstate Oil and Gas Compact Commission, made up of Governors from oil producing states, we mean business in getting the message out: “charity begins at home.” Look at the U.S. today. Environmentalists have excluded off-shore West Coast-East Coast overthrust areas from production—

REMARKS AS PREPARED

leaving the Gulf which is stormbound and Alaska which is trying to open up it's huge potential.

- The IOGCC Alliance group met with experts from MMS, USGS, and agencies from coastal states and provinces and they came up with some amazing results ---- it is estimated that there are 51 tcf of gas that are off limits in Canada and 82 tcf in the United States.
- Canada cannot access an estimated 9.9 billion barrels of oil and for the United States it is 18.3 billion barrels of oil.
- This brings the grand total to 133 tcf of gas and 28.2 billion barrels of oil. These calculations do not include Alaska.
- At this moment powerful environmental organizations are lobbying Congress in an effort to deny America the benefit of production of billions of barrels of domestic oil from the coastal plain of ANWR.
- I urge each of you to speak out forcefully in your respective states and to your state leaders in favor of allowing responsible oil and gas development to proceed under the American flag.
- I have been an advocate for ANWR development for my entire career, spanning more than 22 years in the Senate and now as Governor of Alaska. There is no scientific evidence to suggest we can't open it safely.
- In 1995 when I was in the United States Senate I helped

REMARKS AS PREPARED

pass ANWR legislation, but it was vetoed by President Clinton. Had that veto not occurred we could be pumping oil from ANWR today and the pipeline would be carrying 25 percent of domestic oil instead of only 17 percent. In other words, two billion bpd instead of one billion bpd.

- The case for ANWR is simple. The geologists tell us it is the most likely area in which to discover a major oil field in North America. 16 billion barrels or so. Opponents say it is a six months supply—they don't tell you that that could only occur if there is no other oil production in the U.S. and no imports. ANWR has to be viewed in proportion -- 19 million acres — the size of South Carolina of which 8.5 million acres are permanently in wilderness and an additional nine million acres managed as wilderness, but in the refuge. This leaves only 1.5 million acres of the so-called Coastal Plain that only Congress can authorize opening. Finally, the House passed bill allows only two thousand acres, not much bigger than a small farm on which development will occur.
- The 800-mile pipeline lies adjacent to ANWR and runs each day half full — one million barrels with a capacity of more than two million. Further, Prudhoe Bay, which is over 30 years old, has produced up to 27 percent of of the US production. Yet, it is still the most advanced and environmentally sensitive oilfield in the world. ANWR offers safe domestic supply, U.S. jobs producing U.S. oil. Given our experience in the Arctic developing Prudhoe Bay, there is no scientific evidence to suggest that we cannot explore and produce energy from ANWR.

REMARKS AS PREPARED

- The caribou population in Prudhoe Bay has actually increased from a few thousand in the Central Arctic herd to over 16,000. There are no firearms in the oil fields and the caribou cannot be run down on snow machines. Proof of a manageable footprint was the development of Endicott—the 8th largest producing field in North America with a footprint of 56 acres.
- Some people have forgotten the fight in Congress to open up Prudhoe Bay. The Senate had a tie vote on authorization. Former Vice President Spiro Agnew broke the tie with his vote. The stage is now set for Congress to have another historic vote to authorize the opening of ANWR in the Budget Reconciliation Bill before Congress. It is time the issue was resolved in the interest of achieving greater energy independence for America and keeping our jobs and dollars at home. We cannot risk our national security to be held hostage by OPEC.
- Where does Alaska oil go? Japan? No. It goes to Washington State and California—in U.S. ships, with U.S. crews, because of the Jones Act. If Californians don't get oil from us, where do you get it? Do you know or care? You have to have it. Reasonable gas prices affect the quality of living in California and our nation.
- In Alaska there are more energy proposals than just Prudhoe Bay. To the west of the giant Prudhoe Bay oil field on Alaska's North Slope, is the National Petroleum Reserve-Alaska. This was established in 1923 as a “petroleum reserve” for the nation.

REMARKS AS PREPARED

- Recently the Department of Interior has held several successful lease sales and there have been some promising discoveries within that reserve.
- Nevertheless, debate continues over what portions and just how much of that reserve should be open to oil and gas exploration and production ... bear in mind that I am talking now about a “national petroleum reserve” where technically recoverable reserves of natural gas alone are currently estimated in excess of 60 trillion cubic feet—oil reserves are estimated in the 100’s of billion barrels.
- As the reserve estimates suggest ---- Alaska “is” America’s energy pipeline.
- Turning back to the plans for building the gas pipeline, with the discovery of oil in Prudhoe Bay in the late 1960’s we identified vast natural gas reserves. Proven reserves stand at 37 trillion cubic feet.
- These reserves have been known for some time yet with prices between two and three dollars, the economics to amortize a pipeline just weren’t there. This gas pipeline will only be built because the economics are now supported by an adequate price structure, proven reserves, advanced technology and receptive and responding market place whose reserves are currently being drawn down and not replaced.
- Our challenge, as it always has been, is getting that gas into the North American distribution system.

REMARKS AS PREPARED

- The system to deliver this gas will run over 1,800 to 3,000 miles transiting both the U.S. and Canada onto Chicago.
- Geography ---- climate ---- cost ---- and international protocols all present unique challenges that must be addressed to make this project a reality.
- I am happy to report we are moving rapidly along on all fronts.
- Earlier discord between Alaska and Canada over pipeline routing has been replaced by mutual assistance in advancing “both” the Mackenzie Delta and the Alaska Highway pipelines.
- Alignment between Canada and the U.S. continues to strengthen.
- All agree that carving out an early niche for northern gas will allow both Alaska and Canada to continue a robust gas exploration and production program for decades to come.
- Speaking only of Alaska, my experts tell me our gas potential reaches well beyond 200 trillion cubic feet of conventional reserves. Alaska gas, when it comes on line, adds 10 percent to domestic production.
- I am also very encouraged by recent findings associated with our ongoing North Slope methane hydrate studies.
- These findings strongly suggest that as much as 25 trillion cubic feet of methane hydrates may be producible

REMARKS AS PREPARED

within Prudhoe Bay infrastructure using “conventional” technology.

- And while of course it is far off on the horizon ---- the Minerals Management Service recently announced test results from an exploration well located offshore in the Chukchi Sea.
- Their preliminary assessment suggests this discovery alone could contain as much as 27 trillion cubic feet of gas.
- I mention these things only to underscore the fact that there is a “lot” of gas yet to be discovered in Alaska.
- Success in commercializing this gas will rest in large part with how the state, provincial, and federal governments conduct themselves.
- Much has already been done on this front.
- Last fall Alaska’s Congressional Delegation under the leadership of Ted Stevens, Don Young, and Lisa Murkowski successfully passed federal enabling legislation for the Alaska Gasline.
- This legislation contains a number of provisions critical to the construction of the Alaska gas pipeline.
 - Expedited judicial review;
 - Priority permit processing by FERC and other federal agencies;
 - Loan guarantees;
 - Accelerated depreciation for the pipeline;

REMARKS AS PREPARED

- Conditioning plant benefits;
- In mid February of this year the U.S. Federal Energy Regulatory Commission passed regulations governing “open seasons” for the Alaska gas pipeline.
- I am extremely pleased to report that those regulations embraced my three main policy goals;
 - Providing access for new explorers;
 - Providing off-take points for instate usage (Yukon River, Fairbanks, Delta, Glenallen);
 - Requiring serious consideration be given to in-state needs during open seasons and expansions.
- And the State of Alaska is doing its part ---- We are actively engaged in negotiations with three entities interested in building a North Slope gas pipeline: TransCanada Pipeline Company and a consortium of North Slope producers (ExxonMobil, ConocoPhillips, and BP) as well as a Port Authority Group of local governments.
- These negotiations come under terms of Alaska’s Stranded Gas Development Act.
- This Act was designed to allow the state to negotiate tax and royalty conditions specific to the gas pipeline development.
- It allows us to provide (under contract) fiscal certainty, restructured taxation measures that take into account project revenue streams, and creative ways to deal with design and construction costs.

REMARKS AS PREPARED

- As everyone knows, the economic challenges of this project are significant ---- but there may be some additional incentives Alaska can provide on increasing corporate return on investment.
- Toward addressing this, Alaska is now investigating a number of nontraditional approaches to lower project cost and risk.
- For instance, departing from the state's traditional role of royalty and tax collection, we are currently evaluating:
 - Taking approximately 20 percent equity position in the pipeline, about four billion dollars;
 - Converting our tax and royalty position into a percentage ownership of the gas reserve;
 - Assuming a shippers risk for our share of the gas.
- When all is said and done however what remains is my steadfast commitment to bring to the people of Alaska a contract that is in their best interest.
- To accomplish this I will insist that the following six principals be incorporated into any final agreement.
 1. Alaskans deserve a fair share of revenues from a gasline project (Alaska's royalties are 12.5 percent, or 1/8th);
 2. Alaskans need the opportunity to access the gas;
 3. Future explorers must have access to the gasline;
 4. The gasline must be expandable;
 5. The state should share in the wealth by owning a share of the gasline;

REMARKS AS PREPARED

6. Alaskans deserve Alaska gasline jobs.

- When it comes to producing Northern gas in an environmentally responsible manner ---- what's good for Alaska is good for all of North America.
- Everyone stands to benefit from developing our oil and gas, and as I stand before you today, I promise you that Alaska and this Governor will do their part.
- My administration is currently involved in round-the-clock negotiations working toward concluding the necessary governmental agreements that are a prerequisite to construction of a natural gas pipeline to bring trillions of cubic feet of gas from Alaska's North Slope to heat U.S. homes and supply U.S. industry for decades into the future.
- This will be the largest and most expensive construction project ever undertaken in North America. The cost of 20 billion dollars plus. Providing gas for America's homes for over 50 years. America's production of natural gas will be boosted by nearly 10 percent or more overnight. American workers and engineers will build it and American consumers will have the benefit of an uninterrupted supply of natural gas. The revenues will stay in America and not be sent to the Middle East. This project must be initiated now. We cannot afford to wait another decade.
- All of us in positions of public responsibility must remember that we will be judged by history, and that when and if disaster strikes again, as it inevitably will, we must be able to say we did everything we could to

REMARKS AS PREPARED

ensure that our great nation would not be crippled by energy shortages.

- We cannot wait until we are confronted with a sudden emergency and then decide to remove the current obstacles to domestic exploration production, transportation and refining.
- If we are to be prepared for the next emergency that comes our way, we must begin now to make the tough policy decisions that the American people will demand of us in the event of such an emergency.
- We must demand that Congress and the Administration move with immediate emergency measures to expedite permitting in opening up federal lands in our country.
- In Alaska, building a gas pipeline, opening ANWR and encouraging new exploration and development of our natural resources paves the way to meet our nation's energy needs.
- I have never been more positive about what the future holds for Alaska and the U.S. or more firm in my resolve in establishing **Alaska as America's Pipeline to Energy Independence.**